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The Globalization of Brazil : Two Sides of the Economic Miracle

by Michel Groulx



Brazilian steelworkers

[The metal worker and the presidency](#)

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Brazil, the giant of South America, stands at a crossroads today. The nation is on the threshold of negotiating a functional and prosperous economic integration arrangement for the entire continent, on an equal footing with North America. But first, some important transformations must occur: it must deal with its immense social problems, beginning with agrarian reform. The stakes are enormous and involve Brazilian society as a whole — including those who have been traditionally left out.

The metal worker and the presidency

Until recently, [Luis Ignacio Lula da Silva](#) was a metalworker at a factory in the industrial region of São Paulo. In 1989, he became a candidate for President of Brazil, running for the Workers' Party, a leftist coalition of labour unions, landless peasants and progressive forces within the Catholic Church. "Lula", as he is better known among Brazilians, was initially the favourite to win the presidency, but ended up with less than 20% of the popular vote. (Fernando Henrique Cardoso was elected president with 54%.) On a

visit to IDRC last summer to take part in a symposium organized by the Montreal-based NGO, Alternatives, the former metalworker retraced the [long road that Brazil has followed towards democracy](#) and described the steps that remain before this nation of 161 million people can become a fully modern, stable society.

According to Lula, Brazil will have to adjust to rapid changes that are reshaping the continental and international economy. The country is opening up to the world — and in particular to the rest of South America — a move that has gained momentum with the signing of [Mercosur](#), an economic treaty linking Brazil, Argentina, Uruguay and Paraguay. The South was forced to make its move, in response to NAFTA at the other end of the hemisphere.

Avoiding "downward" integration

Lula hopes that this continental integration will avoid the trap of "downward" integration, which could lead to the kind of situation facing Mexico. "In Brazil," he said, "people's organizations are not against continental integration, but we don't just want a lot of *maquiladoras*, where wages and working conditions are reduced to the lowest common denominator." In Mexico, the industrialization that NAFTA promised has not progressed beyond the creation of American car assembly lines for re-export to the United States, he explains. What is worse, the crisis sparked by uncontrolled deregulation in the financial sector ended with disastrous unemployment, and virtually bankrupted the middle classes.

Economic stability at risk

[Pedro Bocayuva Cunha](#), who works for FASE (Federação de Orgaos para Assistencia Social e Educational), a social and economic research institute with close ties to the labour movement, believes that the goals of price and currency stabilization could be at risk from capital movements. "Hot money flows into Brazil because interest rates are high and regulation is weak, but it can also pick up and leave at any time, if other countries offer more attractive rules," said Cunha during the symposium. On this point, the World Bank seems to be taking a second look at economic and trade liberalization. According to the Bank, to avoid destabilizing effects, compensatory measures must be introduced so that the weaker economies can diversify and modernize.

The role of organized labour

For the moment, Lula believes the debate about integration in Brazil should reflect on these warnings. He recommends including the Brazilian labour movement in the mechanisms that will design and set up the integration structures. The experience to date with Mercosur may hold some lessons for NAFTA. "The basic idea is that the workers must be part of the process. It is not by nature anti-economic to protect people's livelihood," says Lula. People also want to have their say in the face of further transformations planned for the Brazilian economy, such as the privatization of parts of the public sector. Unfortunately, they are not always given this chance, as was shown during an anti-privatization strike by workers at Petrobras, the public enterprise that controls Brazil's oil production. This strike was crushed when the army was called in, and several labour leaders were arrested.

An optimistic future?

Seen from abroad, Brazil has everything it takes to become a member of the select G-7 club and other fora that decide the world's fate. Its enormous wealth of human and natural resources is waiting to be put into service, in the context of a regional market that covers all of the Mercosur countries. And despite their problems, the people at large seem relatively optimistic. At the municipal level, experiments are underway to show that progress is possible. In the national capital of Brasilia, for instance, the municipal government is controlled by a coalition in which the Workers' Party is the dominant partner and has launched a program to encourage youth to return to school (currently, four million young people do not go to school), by making social assistance for their parents conditional on having their children in the classroom. For Lula, "it is good to look back at how far we have come. In Brazil of the 1970s, it was a serious offence to

Speak out. Today, poor people have found their voice, and they will continue to make it heard."

Pierre Beaudet is director of Alternatives, an NGO-based in Montreal.

Sidebars:

[Brazil: The road to democracy](#)

[Mercosur](#)

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Brazil: the road to democracy

In the early 1960s, the Brazilian military held the country in its grip with the support of the great landowners of the North, who to this day still own vast plantations that hark back to the days of slavery. However, in the urbanized and industrialized South, a powerful popular political movement emerged, based on manufacturing workers and middle-class support. "In the 1980s", says Lula, "this broad coalition succeeded in forcing the hand of the military. A tidal wave of mass mobilization swept them along to the point where they had no choice but to hold truly democratic elections."

Today, democracy in Brazil is relatively secure. Since 1994, a new President, Fernando Henrique Cardoso, who spent much of the dictatorship period in exile, is trying to bring about reforms that are not only indispensable from a democratic viewpoint, but also unavoidable if the country's economy is to grow at a high rate. In the cities, a vast "fourth world" continues to grow as peasants flee rural areas and place unsustainable pressure on urban infrastructure. Illiteracy, abandoned street children, delinquency and drug trafficking are common, because a large proportion of the population falls outside the formal economy and has no social safety net.

At the beginning of 1997, the *Movimento Sem Terra* (Landless People's Movement), which has several million members, is on the offensive. All over Brazil, the movement is occupying lands, such as the Portale de Parana in the North, where 1,300 families launched a grass-roots agrarian reform in early January. According to national newspaper reports, a confrontation could easily occur because the large landowners, under the banner of the União Ruralista, are threatening to send in their own army with the connivance of local police. It remains to be seen what President Cardoso will do, in light of his electoral promises to help small farmers. Several opinion surveys have shown that the majority of people support the peasants' claims. In a popular television series that has a wide impact in Brazil, a young female activist for the landless cause is caught up in a political-psychological drama familiar to millions of viewers — and has become a national heroine.

Pierre Beaudet

Mercosur

The Common Market of the South American Cone, Mercosur was established in March 1991. Mercosur is a customs union joining four countries — Argentina, Brazil, Paraguay and Uruguay — into one market. It affects over 200 million people in a region with a combined gross domestic product (GDP) of \$800 billion, or about half of Latin America's total GDP.

The treaty says member countries must "coordinate" their policies and "harmonize" trade, industry, and services. For now, this is being done through deregulation and by removing trade and investment barriers. Mercosul is currently negotiating bilateral free trade agreements with Bolivia, Venezuela and Chile.

Mercosur has led to changes that are opening up Brazil's economy, which until the 1990s was highly regulated and protected by considerable trade and investment barriers. It has reduced the average Brazilian tariff from 32% in 1990 to 14.2% now. Trade has increased between member countries from \$3.6 billion in 1990 to \$12 billion in 1994.

A long-term aim of Mercosur is to create an integrated market, much like the European Community, across South America. A third, eventual plan, to be realized after the year 2005, is for the full continental integration of the North and South American markets.

Bert Bailey is an Ottawa-based writer.



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Emerging Southern Markets Fueling Global Economic Growth

by Curt Labond



**While some Southern economies show strong economic growth,
others will experience painful adjustments
(Photo: Calcutta, India)**

Emerging Southern Markets Fueling Global Economic Growth

The global economy appears to be on a slow upward trajectory, and some of the economies rising fastest are found not in the North but in the South. The UN has predicted that the worldwide output of goods and services will grow by 2.5% in 1996 — for the third year in a row. Although political upheaval, war, and drought have held back some developing countries from participating in this boom, many of the poorest nations in the South have the most rapidly expanding economies (at rates of 5% or more per year).

"The fastest-growing part of the world economy is in the developing world, not in the industrialized nations," said [Robert Miller](#), senior consultant to the International Finance Corporation (IFC), an arm of the World Bank. The World Bank has predicted that developing nations will absorb 50% of global foreign direct investment within 25 years, more than doubling their share since the early 1980s. Although the largest single block of foreign direct investment now goes to China, when the amounts invested are compared to GDP (gross domestic product), proportionately more money is going to smaller developing

countries, noted Miller.

Miller was among the featured speakers at IDRC development fora on emerging Southern markets, held earlier this year in Montreal, Ottawa, and Toronto. His comments echoed statistics from the UN *World Economic and Social Survey* 1996, which indicates that in 1995, GDP per capita rose in 71 out of 93 developing countries whose data are regularly monitored. And 21 of the 48 "least developed countries" registered growth in GDP per capita.

Wrenching adjustments

According to Miller, the end result of these trends will be beneficial, leading to higher world incomes. He predicted, however, some "fairly wrenching adjustments." For example, unskilled labour pools in industrialized nations will have to adapt to increased competition. Other painful adjustments will have to be made in some parts of the South. UN economist [Barry Herman](#) noted that the level of development assistance flowing from North to South is dropping, leaving countries that are unattractive to foreign investors — such as nations in post-conflict situations, or those where per capita income is very low — in dire straits.

Another trend affecting countries around the world is globalization — not only of goods and services but also in capital markets. "I can go to many countries and access my bank account through an ATM [automatic teller machine]," said Miller. "This is a trivial example of a much larger phenomenon. Today, companies can find international financing even if they are not big exporters."

He explained that as trade barriers fall in response to treaties such as GATT (the General Agreement on Tariffs and Trade) and NAFTA (the North American Free Trade Agreement), it becomes easier for Southern firms to export. Moreover, the costs of doing business overseas are falling rapidly, owing to dramatic advances in telecommunications, data transmission, and data processing.

"All this has implications," said Miller. For example, corporations can now afford to control dispersed international manufacturing networks that would not have been possible a few years ago. On the other hand, corporations that traditionally had a virtual monopoly on local markets may suddenly face stiff competition from around the world. "These are trends that are not to be stopped. These changes are going to affect businesses everywhere, and they will have to adapt or be left behind," he declared.

North-South terminology outdated?

Traditionally, international aid and development organizations as well as economic think tanks have divided the "have" and "have not" nations into two camps: the relatively rich industrialized nations of the North and the poorer, less-developed nations of the South. But current economic forces may be making this distinction meaningless.

"In my view, the traditional North-South nomenclature is of decreasing validity," says [Erik Nilsson](#), senior international economist for the Bank of Nova Scotia. He noted that some long-standing economic ties are being eclipsed by newer relationships, forged along new trade axes. For instance, in the area of agricultural trade, Canadian interests are now more closely aligned with Argentina than with the European Union.

"It is also worth noting that intraregional trade is becoming increasingly important in emerging economies," Nilsson added. "In Asia, for example, roughly one third of trade is intra-regional. In South America ... Brazil is now Argentina's major trading partner."

"These developments make sense economically and geographically, but they don't fit easily with some North-South paradigms and the ideological baggage sometimes associated with them," he concluded. "To maintain a simple bipolar view of the world is, for the purposes of analysis, inappropriate and potentially misleading."

Sidebar

[Attracting International Investment: Key Criteria](#)

Resource Persons:

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Levelling the Playing Field for International Trade

by Henry F. Heald



Clothing factory, Quito, Ecuador

Greater progress in developing countries toward democratic governance, coupled with improvements in economic and social conditions, may be more effective in levelling the playing field for international trade than trying to establish global "rules of good behaviour" for environmental and social standards, according to panellists at an IDRC development forum.

The freedom to organize unions and to bargain collectively may do more to improve working conditions in developing countries and, in turn, level the playing field for trade, than setting such standards as an international minimum wage, said speakers from government, labour, academia, private industry, and the United Nations.

For example, a goal such as better working conditions may be better met by improving water and sanitation services than by applying trade sanctions. Similarly, creating incentives to send children to school may be a better way to keep them out of factories than stopping trade with countries that permit child labour.

A centuries-old idea

In opening the forum, IDRC President Keith Bezanson, recounted that the 18th-century economist David Ricardo had been among the first to advocate a level playing field based on balance among trading partners, equitable labour costs, and full employment. For Bezanson, the challenge today is to fashion

policies that level the playing field before countries become embroiled in trade disputes.

Forum moderator [Dr Gerald Helleiner](#), of the University of Toronto, noted that the Uruguay Round negotiations of the General Agreement on Tariffs and Trade, which launched the World Trade Organization (WTO), had initiated a new era in international trade, one that is intended to minimize trade disputes.

The core principles of the WTO state that national trade policies must be transparent, predictable, and non-discriminatory, and that trade disputes must be settled on a multilateral basis. In theory, a global trade order based on these principles levels the trade playing field and gives developing countries more opportunity to increase their incomes and living standards through greater trade with the North.

From whose perspective?

But which way is the playing field actually tilted? The answer appears to depend upon whether one views it from a Northern or a Southern perspective. From the North, some constituencies consider low wages, child labour, meagre social benefits, and weak environmental standards in developing countries to constitute an unfair trading advantage. The view from the South, however, is that powerful countries and large industries will dominate trade, preventing poorer countries from competing on a level playing field.

[Dr Steve Benedict](#), national director of international affairs for the Canadian Labour Congress, recommends that international trade agreements contain a "social clause" guaranteeing freedom of association, free collective bargaining, freedom from discrimination, and the elimination of forced and child labour -- with a built-in mechanism for enforcement.

According to Benedict, the labour movement is not asking for an international minimum wage because it would be difficult to negotiate and impossible to monitor. He added that countries must be allowed to set wage standards that reflect local economic conditions. What is required, however, is a basic floor of labour rights: if unions are granted collective bargaining rights, they can negotiate a minimum wage for their country, argued Benedict.

Mobility of capital

One problem facing labour today is that investment capital flows freely around the world and repression of labour unions attracts investment, said Benedict. "For example, if Malaysia improves working conditions, investment will flow to Indonesia. If Indonesia improves conditions, it will flow to China."

A social clause may help to counter these capital flows because strong labour unions create a good market for domestic products, said Benedict.

[Jerry Kramer](#), Director of the Economic and Social Development Division in Canada's Department of Foreign Affairs and International Trade, said a recent poll shows that Canadians support linking trade and human rights. "Canadians are prepared to pay more for goods that have been made without child labour and human rights abuses."

In a similar vein, Steve Benedict said companies are wrong to say that they cannot tell a foreign government that it must improve its labour codes. "It is a question of Canadian values. It is not acceptable to have goods sold in Canada that are produced under slave labour conditions."

Raising standards

According to Kramer, Canada is taking steps to advance higher standards including strengthening the International Labour Organization (ILO), a convention to define exploitation of children, and an

international agreement on the conduct of investors. Canadian aid agencies are working with national institutions in the developing countries to build in environmental and other standards. He said the ILO will help countries improve their labour standards on the condition that deadlines be met for applying the new standards.

In Kramer's view, critics must decide what the problem is when they accuse companies like Nike shoes of using unethical methods in developing countries. "Is the problem child labour, refusal to allow workers to unionize, or low wages? If we are going to take measures against abuses, we have to know what the rules are."

Henry F. Heald is an Ottawa-based writer.

Sidebar

[Trade and Environment in Mexico](#)

Resource Persons

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Reconciling Ecological, Economic, and Social Imperatives

by Pattie LaCroix



Deforestation in Brazil

As we move into the 21st Century, human institutions face a variety of diverse yet interconnected [ecological, economic, and social problems](#), ranging from threats to our planetary life-support systems to the challenges of managing rapid economic change and creating more responsive systems of governance that meet the needs and aspirations of people throughout the world.

In a recent paper prepared for IDRC, Professors [John Robinson](#) and Jon Tinker of the University of British Columbia's Sustainable Development Research Institute argue that the challenges facing humanity today cannot usefully be addressed in isolation. Their paper, entitled "Reconciling Ecological, Economic and Social Imperatives: Towards an Analytical Framework", attempts to define a common conceptual framework for the integration of ecological, economic and social objectives in policy-making.

ACHIEVING SUSTAINABLE DEVELOPMENT

Robinson and Tinker's central thesis is that to achieve [sustainable development](#) -- a concept that has generated considerable public debate -- human societies need first to achieve sustainability in each of their ecological, economic and social systems. The authors believe that while the three systems or imperatives may vary between cultures, it should be possible to adopt some common general definitions. Their paper proposes the following definitions:

- the ecological imperative is to remain within planetary bio-physical carrying capacity;
- the economic imperative is to ensure an adequate material standard of living; and
- the social imperative is to provide systems of governance and other social structures that effectively

propagate the values that people want to live by.

INTERCONNECTED PROBLEMS

Given this conceptual foundation, the paper goes on to discuss why all three imperatives must be satisfied, and how each of them are mutually reinforcing. "We see economic development contributing to ecological devastation all over the planet," elaborated Dr Robinson during an interview. "We see environmental degradation where the people are poor and have to scrounge for wood, because they don't have other options. Environmental degradation undercuts the land base in many traditional societies, and so one can see a link between the social, the economic and the environment."

ECONOMIC FUNDAMENTALISM

The authors argue that to address the problems facing our planet, social, economic and environmental imperatives must be equally weighted and valued, which will require a major shift in prevailing attitudes. "We have a tendency in our industrialized culture towards economic fundamentalism, the belief that only the economy matters and that ultimately everything is derived from your standard of living, defined in terms of the GDP per capita and other standard economic measures," says Robinson.

"We don't need to change people's values, we need to change their behaviour or their relative weighting of values. It is the institutional framework that gives rise to the expression of values that has to change," he explains.

INTEGRATION STRATEGIES

To integrate social, economic and environmental imperatives, the authors recommend that societies adopt complementary "dematerialization" and "resocialization" strategies. Dematerialization strategies aim to reduce the environment impact per unit of economic activity, such as policies that promote the development of more environmentally benign industrial processes. In a similar vein, resocialization strategies aim to increase human welfare per unit of economic activity, such as the introduction of shorter work weeks as a means of reducing unemployment. Robinson and Tinker point out, however, that such a shift could be socially unsustainable if it was imposed on unwilling citizens.

DECENTRALIZATION AND GLOBALIZATION

The authors recommend that societies implement dematerialization and resocialization strategies within an institutional framework that calls for more localized and decentralized decision-making, while recognizing the increasingly global nature of ecological and economic problems. "Our argument is that we want to get local management into the decision-making process but in order to get that, they will have to agree to common binding standards in terms of things like human rights and environmental standards," says Robinson. In this respect, decentralization and globalization are not mutually incompatible.

"We have an economic system that increasingly is not tied to sovereign nations, but is increasingly global. If we don't develop some capability to act politically in a much more global way we are going to be completely subservient to this global economic process," he says.

DESIRABLE FUTURES

For Robinson, the [next step](#) is to develop appropriate analytical tools for generating scenarios of possible futures, particularly desirable futures. "For a country like Canada, there may be a shorter work week, less income, less consumption, perhaps more bartering for services like child care and higher prices for goods that are environmentally destructive."

"The degree to which we are able to [achieve a sustainable future]," he concludes, "is directly linked to our capacity to capitalize on the tensions between social, ecological and economic imperatives rather than be overwhelmed by them."

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